(text box: 1)BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THEAPPLICATION OF DIRECT COMMUNICATIONS ROCKLAND, INC. AND DIRECT COMMUNICATIONS LAKESIDE COMMUNICATIONS, INC. FOR AN ORDER AUTHORIZING THE MERGER OF THE APPLICANT COMPANIES.                                                                                       | ))))))) | CASE NO. ROK-T-98-1ORDER NO.  27866 |

On November 3, 1998, the Commission received a Joint Application from Direct Communications Rockland, Inc. and Direct Communications Lakeside Communications, Inc. for an order authorizing the merger of the applicant companies. Rockland also requested the Commission to approve transfer of Lakeside’s Certificate of Public Convenience and Necessity to Rockland.  Notice of Modified Procedure was issued on December 16, 1998.  Order No. 27831.  Comments were due on January 6, 1999.  Only the Commission Staff filed comments.

Based on a review of the Joint Application, Staff’s comments, the law, and the record, the Commission grants Rockland’s and Lakeside’s Joint Application as conditioned below.

BACKGROUND

Rockland is a regulated company that provides basic local exchange and other telecommunications services in the Rockland and Arbon exchanges in southeastern Idaho.  In March 1996, the Commission approved the sale of the Paris exchange from U S WEST Communications, Inc. to Rockland.  Order No. 26353 (Case Nos. ROK-T-94-1/USW-S-94-4). Lakeside is a wholly-owned subsidiary of Rockland created to acquire the Paris exchange from U S WEST pursuant to the 1994 asset purchase agreement.  According to the Applicants, the Lakeside subsidiary was created in order to provide a “clean line of demarcation” between Rockland and the Paris exchange to simplify accounting and regulatory issues.  Application at 2.  One of the conditions of the 1994 agreement requires Rockland to maintain U S WEST’s applicable local exchange rates for a period of three years.  Order No. 26353 at 4.  The sale contemplated by Order No. 26353 was concluded on May 14, 1997.  Order No. 27166 at 4 (Case Nos. USW-T-97-17/DCL-T-97-1).

In February 1998, Rockland, Lakeside and Staff stipulated to resolve several outstanding requests for extended area service (EAS) from Rockland and Lakeside customers and Rockland stipulated to withdraw its request for a rate increase.  (ROK-T-97-1/GNR-T-96-5/GNR-T-97-7).  Rockland and Lakeside agreed to provide EAS for their customers in the Arbon, Rockland and Paris exchanges to U S WEST’s eastern Idaho EAS region at basic local exchange rates fixed at $24.10 per month for residential service and $42.00 per month for business service.  The agreement also provided for a measured service rate of $16.00 per month and eliminated all zone charges.  Rockland and Lakeside further agreed to refrain from filing future requests for rate relief until after financial results for calendar year 1998 were available and agreed to only file such requests on a combined company basis.  Rockland also agreed to not increase its Idaho USF draws as a result of implementing EAS and in return it would continue to receive its existing draw.

APPLICATION

On November 3, 1998, Rockland and Lakeside filed a Joint Application for an order from this Commission to authorize the merger of Rockland and Lakeside and to transfer Lakeside’s Certificate of Public Convenience and Necessity to Rockland.  Rockland and Lakeside claim that the original basis for operating the Paris telephone exchange as a separate subsidiary to is no longer valid.  The Applicants further assert that the merger is revenue neutral and will not affect either Rockland’s or Lakeside’s rates and charges.  The two companies now have identical rates for basic local exchange service.  However, there are some remaining rate differences, primarily involving access charges and recurring rates for vertical services.

The Applicants claim that the merger will be advantageous to both companies and to the Commission.  They claim that both will realize cost savings by eliminating duplicate functions and by alleviating regulatory costs associated with investigating and resolving the proper allocation of joint and common costs between the companies.  Moreover, the Applicants claim it will give them better access to capital and the combined companies will be eligible for Rural Utilities Service hardship loans with a five percent (5%) annual interest rate.

The Applicants propose to file a single tariff containing separate schedules to preserve the unique rates in the Lakeside exchange.

STAFF COMMENTS

In evaluating the propriety of the proposed merger, Staff primarily considered whether the merger was in the public’s interest and whether customers will be adversely affected by the merger.  In this case, the Applicants state the merger will not cause rates to change.  They further state that the merger will result in savings to both companies.  Staff reviewed the consumer complaint files compiled since the sale and found that, except for EAS questions and protests, there have been no complaints from the Lakeside exchange since Lakeside began operating it in 1996.

In analyzing the public’s interest, Staff considered two issues — each company’s present access rates and the possible impact on the Idaho Universal Service Fund (USF) of any reductions in access rates in the future.  Staff noted that during the past year, Citizens, GTE and U S WEST North initiated cases that will bring their access rates down — Citizens and GTE will have access rates of just over $0.06 per minute; U S WEST North’s rates will be reduced to just over $0.04 per minute.  Staff asserted that it is, therefore, likely that new statewide average rates will fall from over $0.07 per minute to just over $0.04 per minute.  According to Staff, this will require access rate reductions for all companies currently receiving disbursements from the USF.  Companies that are ordered to reduce their access rates to meet eligibility requirements will receive increased disbursements from the Idaho USF to meet their revenue requirements.

Staff noted that according to the USF Administrator’s report, the statewide average revenue per MTS/WATS access minute is $.062635 per minute.  When calculating the average revenue per access minute, the USF Administrator includes billing and collection revenues.  According to the Administrator’s report, Rockland’s current access rate is $0.0628 and Lakeside’s current access rate is $0.0659.  Rockland is an Idaho USF recipient.  If the Commission orders a reduction in access rates, Staff believes that the combined companies should adjust the individual access rates to one “merged” access rate.  Therefore, although the Applicants assert that the merger is revenue neutral, Staff claimed it does not have the necessary information to analyze the neutrality.  Staff suggested that if financial neutrality is not monitored or verified it could result in a detrimental effect to the USF and the public interest.

Staff found that merging the companies appears to make reasonable business sense, because it should eliminate costs associated with duplicate functions and eliminate costs for personnel time, external auditor time and time answering Commission investigation questions on the proper allocation of joint and common costs between the companies.  According to Staff, everything else being equal, the elimination of these costs would reduce the merged company’s revenue requirement and required USF revenues.  Therefore, Staff suggested that the USF funds received may be reduced to recognize the savings to be achieved from the merger.

Staff found that until a complete test year is available following the merger and the test year has been reviewed by Staff, the estimated savings derived from this merger are unquantifiable.  Moreover, Staff pointed out that the earlier Stipulation with Rockland and Lakeside concerning EAS  provided for a period of time when no audits would be conducted.  Since these savings are not fully quantifiable at this time, Staff supported the merger, provided USF funding levels do not increase prior to a Staff re-evaluation to establish a current revenue requirement and any USF funding required.

Staff, therefore, recommended approval of the Joint Application with the following conditions:

1.That Rockland submit its tariff to the Commission for approval combining the two companies and that the new tariffed rates not be changed from current rates and maintain revenue neutrality, and

2.That Rockland’s current Idaho USF draw be frozen at current levels pending re-evaluation of Rockland’s revenue requirements for the combined company.

COMMISSION FINDINGS

Direct Communications Rockland, Inc. and Direct Communications Lakeside Communications, Inc. are telecommunications corporations subject to the Commission’s regulatory jurisdiction pursuant to Idaho Code, Titles 61 and 62.  The Commission has jurisdiction over the merger of these two corporations pursuant to Idaho Code §§ 61-302, 61-526, and 61-528.

As conditioned in this Order, the Commission finds the merger of Rockland with its subsidiary, Lakeside, to be reasonable and not adverse to the public interest.

The Commission agrees with the Staff’s concern regarding the potential effect of this merger on the Idaho USF.  The Commission, therefore, agrees that approval of the Joint Application should be conditioned as follows:

1.That Rockland submit its tariff to the Commission for approval combining the two companies and that the new tariffed rates not be changed from current rates and maintain revenue neutrality, and

2.That Rockland’s current Idaho USF draw be frozen at current levels pending re-evaluation of Rockland’s revenue requirements for the combined company.

O R D E R

IT IS HEREBY ORDERED that the Joint Application by Direct Communications Rockland, Inc. and Direct Communications Lakeside, Inc. be approved as conditioned above.

IT IS FURTHER ORDERED that Direct Communications Rockland, Inc.’s current Idaho USF draw be frozen at current levels pending re-evaluation of Rockland’s revenue requirements for the combined companies.

IT IS FURTHER ORDERED that Direct Communications Rockland, Inc. submit its tariff to the Commission for approval combining the two companies and that the new tariffed rates not be changed from current rates.

IT IS FURTHER ORDERED that the Joint Application for an Amended Certificate of Public Convenience and Necessity for Direct Communications Rockland, Inc. to reflect the merger and transfer of Direct Communications Lakeside, Inc.’s Certificate of Public Convenience and Necessity to Rockland.

THIS IS A FINAL ORDER.  Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. ROK-T-98-3 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. ROK-T-98-3.  Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration in response to issues raised in the petition for reconsideration.  See section 61-626, Idaho Code.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this                  day of January 1999.

                                                                                                                                       DENNIS S. HANSEN, PRESIDENT

                                                                                            RALPH NELSON, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Myrna J. Walters

Commission Secretary

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**COMMENTS AND ANNOTATIONS**

Text Box 1:

**TEXT BOXES**

Office of the Secretary

Service Date

January 14, 1999